

# **A “Third Option” on Ex-Im Bank Reauthorization**

## **Campbell Working Group Draft Legislation: Section by Section Analysis**

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### **Section 2: Reauthorization**

- Three-Year Reauthorization through end of FY 2017

### **Section 3(a): Reduction in Exposure Cap**

- Lowers exposure cap from \$140 billion to \$125 billion for FY 2015, and
- Lowers exposure cap from \$125 billion to \$110 billion for FY 2016, and
- Lowers exposure cap from \$110 billion to \$95 billion for FY 2017

### **Section 3(b): Bind the Bank to Role as “Lender of Last Resort”**

- The Department of Treasury is directed to monitor the total aggregate dollar volume of fully private export financing.
- If there are two consecutive quarterly declines of 5% or more in fully-private export financing, the exposure cap will be temporarily lifted by \$5 billion for the remainder of the fiscal year in which the certification takes place.
- The Secretary of the Treasury can waive the temporary increase, if it is determined that it is not necessary to maintain stability in export finance markets.

### **Section 4: Safeguards to Avoid Crowd Out**

- The Federal Reserve is directed to perform a semiannual survey on private export finance metrics, to include interest rates, maturities, and credit standards, similar to the surveys it performs in other areas of lending.
- The Ex-Im Bank is directed to submit semiannual reports to Congress on the steps taken by the Bank to adjust the pricing, maturities, and credit standards used by the Bank with the goal of avoiding competition with private export finance

### **Section 5: Allow Risk Sharing Through Reinsurance**

- Allows Ex-Im to begin purchasing reinsurance policies on all or parts of its portfolio risks, by which it will cede risk to reinsurers under catastrophe excess-of-loss reinsurance contracts for purposes of limiting Ex-Im’s maximum exposure.
- The total authorized value of all reinsurance contracts is set at \$25 billion.
- Ex-Im will report to Congress on the progress and experience with reinsurance within two years.

### **Section 6: Strengthen the Board of Directors**

- Directs the Board of Directors to form a Risk Committee
- Requires the Board of Directors to approve all reports submitted to Congress
- Requires the Board of Directors to approve the budget and organizational changes

#### **Section 7(a): Create Role for Chief Risk Officer**

- Ex-Im is required to appoint a Chief Risk Officer, that:
  - o Is hired with the unanimous agreement of the Board of Directors
  - o Reports Directly to Risk Committee
  - o Has staff with full independence from business activities
  - o Is responsible for monitoring and reporting on portfolio, underwriting, and other financial risks

#### **Section 7(b): Establish Portfolio Sub-Limits**

- Within one year after enactment, the CRO established by Sec. 7(a) is required to establish portfolio sub-limits on bases including, but not limited to geography, borrower, supplier, financial partners or counterparties, product line, maturity, and industry

#### **Section 8: Fix Default Rate Calculation Methodology**

- Directs Ex-Im to change the default rate calculation to include failures to comply with other conditions in the loan agreement

#### **Section 9: Attempt Private Financing First**

- Requires all loan applicants to certify that they have sought, but were not able to obtain, financing for the transaction without government support
- In the case of airline transactions, requires borrowers seeking Ex-Im guarantees to certify that they have first sought financing in the capital markets through enhanced equipment trust certificates (EETCs).

#### **Section 10: Initiate Program for Aircraft EETC Risk Sharing**

- Allows Ex-Im Bank to insure tranches of enhanced equipment trust certificates (EETCs) for borrowers who can obtain capital markets financing for part of the transaction.

#### **Section 11: Initiate Program for Financial Institution Risk Sharing**

- Dedicates \$1 billion of the current fiscal year's exposure cap to a risk-sharing program where:
  - o Financial institutions, authorized by the bank, can underwrite and extend loans and guarantees; and
  - o Financial institutions absorb the first 5% of losses; and
  - o Financial institutions absorb 50% of remaining losses

## **Section 12: Limit Risk Exposure on Direct Loans**

- Directs the bank to limit risk exposure to 90% on all new direct loans
- Limits the total aggregate amount of outstanding direct loans to 10% of the current fiscal year's exposure cap

## **Section 13: Fix Job Calculation Methodology**

- Direct Ex-Im to take into account the net number of jobs created by Ex-Im financing, after subtracting out the number of jobs that would have otherwise been created if Ex-Im assistance was not relied upon

## **Section 14: End Programmatic Mandates**

- Terminates Ex-Im Bank mandates for small business, sub-Saharan Africa, and renewable energy

## **Section 15: Prohibition of Deals to Certain State-Owned Enterprises**

- Ex-Im is prohibited from making or guaranteeing loans for companies if it is to a state-owned enterprise of a government with sovereign wealth fund of assets totaling \$100 billion or more and Ex-Im would supply or guarantee more than 30% of the total transaction.
- The Secretary of the Treasury can issue a waiver on a transaction-by-transaction basis, if the Secretary determines that, on a given transaction, a competing export credit agency is willing to supply financing on terms that hampers a domestic exporter's ability to compete
- Note: For purposes of this section, "sovereign wealth fund" is defined as an investment fund owned by a government excluding government-managed pension funds, foreign currency reserve assets, and any asset held by a central bank for the execution of monetary policy

## **Section 16: Reversal of Ex-Im Guidelines on Coal**

- Ex-Im's rulemaking and program implementation with respect to its "Supplemental Guidelines for High Carbon Intensity Projects" is suspended through FY 2017.

## **Section 17: Directive to Negotiate With European Union**

- The Secretary of the Treasury is directed to, on a bilateral basis, negotiate with the European Union to reduce trade-distorting export subsidies of wide-body aircraft.

## **Section 18: Mutual Disarmament of Official Export Credit Support**

- The Treasury Secretary is directed to monitor the aggregate lending volume of foreign export credit agencies that compete with the U.S. Ex-Im Bank
- If, within two years after enactment, the Treasury Secretary determines that the aggregate amount of outstanding loans, guarantees, and insurance provided by foreign export credit agencies has been reduced by an amount similar to the reduction experienced by U.S. Ex-Im Bank, then succeeding fiscal year's exposure cap is further reduced by \$2.5 billion